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NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED - Quarterly Financial Report - For the quarter ended December 31, 2013 (unaudited)

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National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. These statements should be read in conjunction with the Main Estimates and Supplementary Estimates as well as Canada's Economic Action Plan 2012 (Budget 2012) and 2013 (Budget 2013). They have been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. Although these statements have not been subject to an external audit or review, NRC attests that they are an accurate and true reflection of the financial position for the period ending December 31, 2013.

This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates, Supplementary Estimates (A) and Supplementary Estimates (B). The QFR should be read in conjunction with the Main Estimates (no applicable Supplementary Estimates (A) for 2013-14), Supplementary Estimates (B) as well as with Canada's Economic Action Plan 2012 (Budget 2012) and 2013 (Budget 2013).

1.1 NRC Mandate

The National Research Council Canada (NRC) exists under the *National Research Council Act* and is a Departmental corporation named in Schedule II of the Financial Administration Act. The mission of NRC is to work with clients and partners to provide innovation support, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act*, NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the Council deems necessary.

Further details on NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

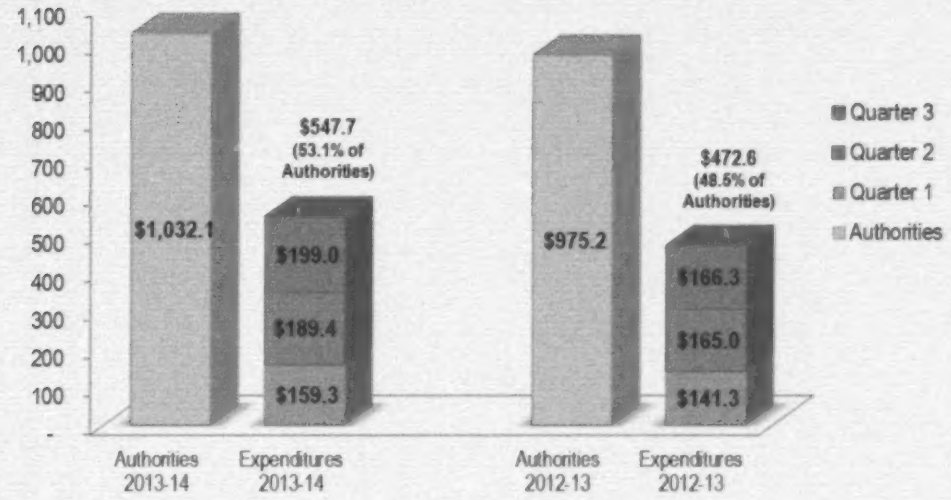
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on December 31, 2013, compared with the previous fiscal year. This section should be read in conjunction with NRC's Statement of Authorities and Departmental Budgetary Expenditures by Standard Object table.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of December 31, 2013, and those as of December 31, 2012.

Comparison of Budgetary Authorities and Expenditures as of December 31, 2013 and December 31, 2012
(in millions of dollars)



As shown in the graph above, NRC's expenditures totalled $199M during the third quarter of 2013–14 which represents an increase of $32.7M over the third quarter of 2012-13. Higher expenditures are mainly attributable to the increase of $20M in operating expenditures, $21.1M in contributions and a decrease of $10.7M in statutory revenue expenditures. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending December 31, 2013, the authorities provided to the NRC include the *Main Estimates*, the Supplementary Estimates (B), NRC's Statutory Revenue Carry Forward, Treasury Board paylist transfers and approved Capital and Operating Budget Carry Forwards. Please note that for the current year, the NRC has no *Supplementary Estimates (A)*.

As reflected in the *Statement of Authorities*, NRC has received a total increase in authorities of $70.1M when compared with the September 30, 2013 Quarterly Financial Report.

The following table summarizes the variances:

For the year ending March 31, 2014 - As of December 31, 2013
Significant Changes to Authorities *(unaudited)*
(in millions of dollars)

	Vote 60 Operating	Vote 65 Capital	Vote 70 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2014 - As of September 30, 2013						**962.0**
Add (deduct) :						
Budget 2013 - to support the realignment to industry focused research	54.4				6.9	61.3
Budget 2013 - Canada Accelerator and Incubator Program	0.1		6.9			7.0
Budget 2013 - to help SMEs access research and business development services	(9.5)		9.5			-
Canadian Light Source	(0.5)					(0.5)
Canadian Safety and Security Program		0.4				0.4
Other	1.9					1.9
Total increase in authorities in comparison to prior quarter	**46.4**	**0.4**	**16.4**	**-**	**6.9**	**70.1**
Authorities – Total available for use for the year ending March 31, 2014 - As of December 31, 2013						**1,032.1**

The variance of $70.1M in authorities is explained mainly by the following items.

- An increase of $61.3M for the realignment to industry focused research from Budget 2013;
- An increase of $7M to help outstanding and high-potential incubator and accelerator organizations expand their services to entrepreneurs as announced in Budget 2013
- A decrease of $0.5M in funding allocated to the Natural Sciences and Engineering Council of Canada (NSERC) for the Canadian Light Source (CLS)
- A transfer of $0.4M from National Defence for the Canadian Safety and Security Program which provides science and technology solutions, support and advice for responding to the Government of Canada's public safety and security policy imperatives
- Treasury Board paylist transfers of $1.6M

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with NRC's Departmental Budgetary Expenditures by Standard Object table as well as the Departmental Budgetary Expenditures by Statement of Authorities.

2.3.1 Variances in Year-to-date Expenditures

As of December 31 2013, year-to-date expenditures were $547.7M, representing an increase of $75.1M (15.9%) in comparison to the 2012-13 expenditures of the same period. The increase is mostly attributable to increased transfer payments and operating expenditures.

- Grants & Contributions (G&C) expenditures increased by $69.8M, compared with the previous year. The increase is primarily attributable to a $50.5M rise in contributions at NRC-IRAP resulting from the permanent increase received in Budget 2012, a $9.4M increase in Digital Technology Adoption Pilot Program contributions and an increase of $11.4M in payments for TRIUMF due to the timing of contributions.
- Net operating expenditures increased by $9.8M, compared with the previous fiscal year. This change is primarily attributable to an increase in personnel costs incurred for the immediate settlement of severance liabilities associated with the ratification of the Technical Officer (TO) collective agreement at the end of fiscal year 2012-13.
- Capital expenditures increased by $3.3M over the same period of 2012-13. The increase is mainly attributable to an increase in machinery and equipment as well as laboratory equipment required to help launch NRC programs.

3. Risks and Uncertainties

3.1 NRC Corporate Risks

For the most part, NRC's corporate risks remained unchanged in their overall assessment for Q3. The one exception is an escalation for the risk related to *Sourcing of Technical and Business Expertise* from medium to high. There is increasing evidence to suggest challenges around mobilizing resources to implement program plans, and facilitating access to the right expertise for program delivery. Commitments are being put into place moving forward to reduce this risk via mechanisms including:

- Implementing and using program boards as needed, as well as tools for managers and staff, to address internal supply and demand issues particularly working across-disciplines and portfolios; and
- Continuing to monitor business and technical expertise requirements and hiring externally where needed.

The other high risk continues to be Change Management, but progress has been made on a number of fronts in Q3 including:

- Using NRC's Transformation Working Group and other internal communities of practice (e.g., General Managers, Directors of Operations) to identify issues and solutions in support of successful Strategy implementation; and

Ongoing business reviews with portfolio and program managers to assess results based on NRC's new operating and financial models.

4. Significant changes in relation to operations, personnel and programs

4.1 Programs

The Government of Canada officially launched its business Concierge Service in December 2013. This service provides a single access point where small-to-medium enterprises (SMEs) can find high-quality, timely advice to help them innovate and accelerate their growth. Developed, implemented and operated by the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP) in collaboration with over 40 federal and provincial partners, the Service improves innovation and economic opportunities for SMEs by helping them navigate the available innovation resources and support programs. By combining online, phone and in-person services, it addresses the individual needs of SME clients.

Also in December 2013, NRC launched four new research programs to help the Canadian construction industry develop, validate and facilitate the market adoption of new products and systems. The new research programs will make it possible to extend the lifespan of Canada's 75,000 highway concrete bridges, construct economical and safe 5- to 12-storey wood buildings, and retrofit buildings such as offices, retail stores and schools to significantly reduce energy consumption. One of the new programs will also increase market access and intensify collaboration with provinces, territories and industry to facilitate the implementation of regulations resulting from the National Model Construction Codes.

NRC has also launched a new co-investment program in November 2013 to help companies economically exploit remote natural resources and lower grade ore. The High Efficiency Mining R&D program establishes opportunities for stakeholders from across Canada's mining supply chains to participate in multi-partner research and development projects and consortia. Targeted projects will help optimize mining processes, improve equipment durability, and reduce the risk of technology adoption and integration across mining operations through techno-economic assessment and systems analysis. These collaborative activities will result in practical technology solutions to save companies hundreds of millions of dollars in operating and maintenance costs, while generating sustainable economic benefits to Canada through an increase in reserves (economically recoverable resources).

4.2 Governance

The Honourable James Moore, Minister of Industry, recently announced the appointment of Thomas Jenkins and Peter D. Vanexan to the NRC Council. Mr. Jenkins is the Chair of OpenText Corporation in Waterloo, Ontario. He is also an Executive Fellow at the School of Public Policy at the University of Calgary. Mr. Vanexan was former President of Grand & Toy Ltd. for fifteen years and served a term as President of the Abitibi Price Division Innova Envelope. Their extensive knowledge and experience will bring a highly valued perspective to the work of NRC as the organization moves forward in implementing its new strategy.

4.3 People

To better support and meet the changing needs of Canada's economy, NRC is consolidating some of its programs and activities. In this quarter, NRC announced changes that will be affecting approximately 57 employees located across the country, working in areas such as automotive and surface transportation, human health therapeutics, aquatic and crop resources development, and construction.

5. Budgets 2012 and 2013

This section provides an overview of the savings measures announced in Budget 2012 and Budget 2013 which have been implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

5.1 Budget 2012

Budget 2012 identified savings of $15.2M per year starting in 2013-14 for NRC. These represent cost savings associated with sun-setting certain projects and programs. The remainder of NRC's cost savings were through administrative efficiencies and reductions in overheads.

Also contained in Economic Action Plan (EAP) 2012 was an initiative for supporting entrepreneurs and innovators. In 2012-13, NRC received a permanent annual increase which is being administered by NRC's Industrial Research Assistance Program (IRAP). NRC-IRAP received $91.4M in 2012-13 and will receive $110M annually starting in 2013-14.

5.2 Budget 2013

EAP 2013 provided NRC with $121M over two years (ending 2014-15) to support NRC's realignment to industry focused research and launch its programs and $60M over five years (ending 2017-18) as part of the Canada Accelerator Incubator Program (CAIP) to expand services to entrepreneurs and provide them with the resources needed to gain a strategic advantage in a competitive international marketplace.

Furthermore, on January 29th, Treasury Board approved $20M in funding over two years (ending 2015-16) as part of the implementation of EAP 2013 to establish a new pilot program delivered by NRC-IRAP to help small and medium-sized enterprises access research and business development services.

Approved by:

John R. McDougall, P.Eng.
President
National Research Council Canada
Ottawa
Date: February 28, 2014

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VP, *Corporate Management and Chief Financial Officer*
National Research Council Canada
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Date: February 28, 2014

National Research Council Canada

Quarterly Financial Report

For the quarter ended December 31, 2013

Statement of Authorities (unaudited)

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended December 31, 2013	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	377,684	95,464	289,644
Vote 65 - Capital expenditures	31,299	8,891	18,630
Vote 70 - Grants & contributions	291,652	72,589	179,676
Statutory revenue **	284,539	10,011	32,608
Statutory EBP	47,106	10,060	30,179
Total Budgetary authorities	1,032,118	196,815	547,737

	Fiscal Year 2012-2013 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2013 ***	Used during the quarter ended December 31, 2012	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	404,647	76,422	276,882
Vote 65 - Capital expenditures	42,085	7,855	15,371
Vote 70 - Grants & contributions	259,568	51,640	109,854
Statutory revenue **	228,367	20,674	40,132
Statutory EBP	40,514	10,128	30,385
Total Budgetary authorities	975,182	166,319	472,624

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act.*

**** Includes only Authorities available for use and granted by Parliament at quarter-end. Total available for use does not reflect measures announced in Budget 2013.*

National Research Council Canada

For the quarter ended December 31, 2013

Departmental budgetary expenditures by Standard Object

(unaudited)

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended December 31, 2013	Year-to-date used at quarter-end
Expenditures			
Personnel	404,723	95,852	200,439
Transportation & communications	20,124	2,468	6,075
Information	2,812	102	614
Professional & special services	65,282	9,898	22,946
Rentals	4,625	748	2,165
Repair & maintenance	23,697	3,718	7,303
Utilities, materials & supplies	116,282	12,635	31,601
Acquisition of machinery & equipment	18,642	1,311	3,458
Transfer payments	253,917	72,569	174,678
Other subsidies & payments	16,357	45	7,767
Total net budgetary expenditures	894,774	199,816	461,747

	Fiscal Year 2012-2013 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2013*	Expended during the quarter ended December 31, 2012	Year-to-date used at quarter-end
Expenditures			
Personnel	404,412	90,559	216,230
Transportation & communications	18,747	1,833	7,145
Information	3,679	153	669
Professional & special services	63,268	6,933	26,385
Rentals	4,108	778	2,704
Repair & maintenance	17,833	2,401	7,730
Utilities, materials & supplies	74,351	8,291	30,106
Acquisition of machinery & equipment	5,456	1,287	1,289
Transfer payments	250,455	51,455	145,654
Other subsidies & payments	11,806	1,745	10,305
Total net budgetary expenditures	853,774	166,774	473,424

*Planned expenditures do not reflect measures announced in Budget 2013